

REVISED

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name BILLINGS TOWNSHIP	County GLADWIN
Audit Date March 31, 2005	Opinion Date November 9, 2005	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

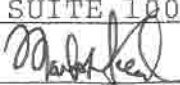
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) BURNSIDE & LANG, P.C.			
Street Address 5915 EASTMAN AVENUE, SUITE 100	City MIDLAND	State MI	ZIP 48640-6824
Accountant Signature  CMA CFP 12/14/05			

**Billings Township**  
Gladwin County, Michigan

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Financial Statements

March 31, 2005

**BILLINGS TOWNSHIP  
TOWNSHIP OFFICIALS  
For The Year Ended March 31, 2005**

Thomas Phillips	Supervisor
Sandra Aultman	Clerk
Eleanor Allen	Treasurer
Teresa Millhisler	Trustee
Kris Phillips	Trustee

**BILLINGS TOWNSHIP  
GLADWIN COUNTY, MICHIGAN  
AUDITED FINANCIAL STATEMENTS  
March 31, 2005**

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**Independent Auditors' Report**

Members of The Township  
Board of Trustees  
Billings Township  
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Billings Township (the "Township"), Gladwin County, Michigan, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

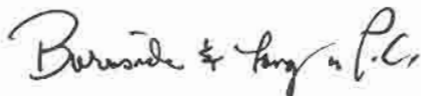
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Billings Township, Gladwin County, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of March 31, 2005.

The budgetary comparison information on pages 19 and 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements of Billings Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Midland, Michigan  
November 9, 2005

**BILLINGS TOWNSHIP**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**March 31, 2005**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 511,399	\$ 64,891	\$ 576,290
Taxes receivable, net	20,077	-	20,077
Assessments receivable, net	27,494	-	27,494
Due from other funds	1,320	-	1,320
Land	51,244	-	51,244
Construction in progress	-	608,716	608,716
Buildings and improvements, net	203,698	-	203,698
Equipment, net	46,649	-	46,649
Total capital assets	<u>301,591</u>	<u>608,716</u>	<u>910,307</u>
Total assets	<u>861,881</u>	<u>673,607</u>	<u>1,535,488</u>
<b>LIABILITIES</b>			
Accounts payable	7,688	29,147	36,835
Accrued expenses	2,137	-	2,137
Bonds and contracts payable	-	634,000	634,000
Bond Interest Payable	-	9,452	9,452
Total liabilities	<u>9,825</u>	<u>672,599</u>	<u>682,424</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	301,591	(34,736)	266,855
Unrestricted	550,466	35,744	586,210
Total net assets	<u>\$ 852,057</u>	<u>\$ 1,008</u>	<u>\$ 853,065</u>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**Year Ended March 31, 2005**

Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Governmental:</b>							
General government	\$ 166,596	\$ 36,277	\$ -	\$ -	\$ (130,319)	\$ -	\$ (130,319)
Public safety	178,587	5,299	-	-	(173,288)	-	(173,288)
Public works	203,918	-	-	-	(203,918)	-	(203,918)
Community development	17,911	-	-	-	(17,911)	-	(17,911)
Total governmental activities	<u>567,012</u>	<u>41,576</u>	<u>-</u>	<u>-</u>	<u>(525,436)</u>	<u>-</u>	<u>(525,436)</u>
General revenues:							
Property taxes and related fees					358,494	-	358,494
State aid					181,562	-	181,562
Federal Aid					44,100	-	44,100
Interest earnings					5,735	1,008	6,743
Miscellaneous					5,641	-	5,641
Special Assessments					6,862	-	6,862
Total general revenues and transfers					<u>602,394</u>	<u>1,008</u>	<u>603,402</u>
Change in net assets					<u>76,958</u>	<u>1,008</u>	<u>77,966</u>
Net assets-beginning					<u>775,099</u>	<u>-</u>	<u>775,099</u>
Net assets-ending					<u><u>\$ 852,057</u></u>	<u><u>\$ 1,008</u></u>	<u><u>\$ 853,065</u></u>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**March 31, 2005**

	<u>General</u>	<u>Fire Department</u>	<u>Other Non Major Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 278,266	\$ 156,071	\$ 77,062	\$ 511,399
Taxes receivable, net	6,561	13,516	-	20,077
Assessments receivables, net	-	-	27,494	27,494
Due from other funds	1,320	-	-	1,320
<b>Total assets</b>	<b><u>\$ 286,148</u></b>	<b><u>\$ 169,587</u></b>	<b><u>\$ 104,555</u></b>	<b><u>\$ 560,290</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 5,697	\$ 1,991	\$ -	\$ 7,688
Accrued expenses	2,137	-	-	2,137
Total liabilities	<u>7,834</u>	<u>1,991</u>	<u>-</u>	<u>9,824</u>
Fund balances:				
Unreserved and undesignated	<u>278,314</u>	<u>167,596</u>	<u>104,555</u>	<u>550,466</u>
Total fund balances	<u>278,314</u>	<u>167,596</u>	<u>104,555</u>	<u>550,466</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 286,148</u></b>	<b><u>\$ 169,587</u></b>	<b><u>\$ 104,555</u></b>	<b><u>\$ 560,290</u></b>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**March 31, 2005**

Total fund balances for governmental funds (Exhibit 3)	\$	550,466
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land and improvements	\$	51,244	
Buildings and improvements, net of \$121,543 accumulated depreciation		203,698	
Equipment, net of \$961,804 accumulated depreciation		46,649	
Total capital assets			301,591

Total net assets of governmental activities (Exhibit 1)	\$	852,057
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The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES**  
**For the Year Ended March 31, 2005**

	<b>General</b>	<b>Fire Department</b>	<b>Other Non Major Funds</b>	<b>Total</b>
<b>REVENUES</b>				
Property taxes and related fees	\$ 59,604	\$ 119,095	\$ 179,795	\$ 358,494
Licenses and permits	5,299	-	-	5,299
Federal aid	-	44,100	-	44,100
State aid	181,561	-	-	181,561
Charges for services	36,277	-	-	36,277
Interest and dividends	4,389	1,168	179	5,736
Special assessments, net	6,862	-	-	6,862
Miscellaneous	1,691	2,575	1,376	5,642
Total revenues	<u>295,683</u>	<u>166,938</u>	<u>181,350</u>	<u>643,971</u>
<b>EXPENDITURES</b>				
General government	160,387	-	-	160,387
Public safety	-	46,927	-	46,927
Public works	49,277	-	154,641	203,918
Community and economic development	17,911	-	-	17,911
Capital outlay	-	95,311	-	95,311
Total expenditures	<u>227,575</u>	<u>142,239</u>	<u>154,641</u>	<u>524,455</u>
Excess (deficiency) of revenues over expenditures	<u>68,107</u>	<u>24,700</u>	<u>26,709</u>	<u>119,516</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-in	-	4,883	-	4,883
Transfers-out	(4,883)	-	-	(4,883)
Total other financing sources and uses	<u>(4,883)</u>	<u>4,883</u>	<u>-</u>	<u>-</u>
Net change in fund balances	63,224	29,582	26,709	119,516
Fund balances-beginning	<u>215,090</u>	<u>138,014</u>	<u>77,846</u>	<u>430,950</u>
Fund balances-ending	<u><u>\$ 278,314</u></u>	<u><u>\$ 167,596</u></u>	<u><u>\$ 104,555</u></u>	<u><u>\$ 550,466</u></u>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**RECONCILIATION OF THE STATEMENT OF REVENUE,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 4)	\$ 119,516
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$137,869) exceeded capital outlay (\$95,311) in the current period.	(42,558)
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Change in net assets of governmental activities (Exhibit 2)	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 76,958</div>
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The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**March 31, 2005**

	<u>Current Tax Collection</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,320
Total assets	<u>1,320</u>
<b>LIABILITIES</b>	
Due to other funds	<u>1,320</u>
Total liabilities	<u>1,320</u>
<b>NET ASSETS</b>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**PROPRIETARY FUND STATEMENT OF NET ASSETS**  
**March 31, 2005**

	<b>Enterprise Funds Sewer Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 64,891
Total current assets	<u>64,891</u>
Noncurrent assets:	
Capital assets:	
Construction In Progress	608,716
Total capital assets	<u>608,716</u>
Total assets	<u><u>673,607</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	29,147
Bonds and contracts payable	634,000
Bond Interest payable	<u>9,452</u>
Total current liabilities	<u><u>672,599</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(34,736)
Unrestricted	<u>35,744</u>
Total net assets	<u><u>\$ 1,008</u></u>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES,**  
**AND CHANGES IN NET ASSETS**  
**For the Year Ended March 31, 2005**

**Exhibit 7**

	<b>Enterprise Fund Sewer Fund</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	1,008
Total nonoperating revenue (expenses)	1,008
Changes in net assets	1,008
Total net assets-beginning	
Total net assets-ending	\$ 1,008

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**PROPRIETARY FUND STATEMENT OF CASH FLOWS**  
**For the Year Ended March 31, 2005**

**Exhibit 8**

	<u>Enterprise Funds Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to suppliers	\$ (41,888)
Net cash provided (used) by operating activities	<u>(41,888)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases and construction of capital assets	(125,399)
Interest paid on capital debt	<u>(22,697)</u>
Net cash used by capital and related financing activities	<u>(148,096)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	<u>1,007</u>
Net increase in cash and cash equivalents	(188,977)
Balances-beginning of the year	253,868
Balances-end of the year	<u><u>\$ 64,891</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ -
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Accounts payable	<u>(41,888)</u>
Net cash provided (used) by operating activities	<u><u>\$ (41,888)</u></u>

The accompanying notes are an integral part of these financial statements.

**BILLINGS TOWNSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**March 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Billings Township conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Billings Township:

**A. Reporting Entity**

The Township of Billings is a predominately rural township located in Gladwin County, Michigan and covers an area of approximately 28 square miles. The Township operates under an elected five-member Board of Trustees and provides fire protection, garbage collection, and community enrichment and development to its 2,715 residents (2000 census).

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary and proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**BILLINGS TOWNSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended March 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. The sewer fund is a proprietary type fund (Enterprise) and is accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting.

The government reports the following major funds:

General Fund. This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township of Billings. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Fire Fund. This fund is used to account for the activities related for fire protection for the Township.

The government reports the following other non-major funds:

Garbage Fund. This fund is a special revenue fund to account for the receipt and expenditures of waste disposal for the Township.

Mosquito Control Fund. This fund is a special revenue fund to account for the receipt and expenditures of mosquito control within the Township limits.

The government reports the following major proprietary fund:

Sewer Fund. This fund is used to record the revenue and expenses for the operation of the sewer system, and the construction of new sewer projects. Capital assets are recorded within the fund and depreciation will be charged to these assets once the respective project is complete.

The government reports the following fiduciary fund:

Trust and Agency Fund. This fund (Tax Collection Fund) is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

**BILLINGS TOWNSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended March 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Amounts reported as program revenue include charges to customers or applicants for goods, services or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**D. Assets, Liabilities, and Net Assets**

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	30 to 40 years
Building improvements	30 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 30 years
Mowing equipment	10 to 20 years
Office equipment	5 to 20 years
Computer equipment	5 to 10 years

Deferred Revenue—Deferred revenue represent amounts that do not meet the availability criteria for recognition as revenue, such as grant monies received before the expenditure is incurred, and special assessments before the assessment is received.

Compensated Absences (Vacation and Sick Leave)—Vacation and sick leave benefits attributable to the City’s governmental funds are recorded as an expenditure and a current liability in the respective funds. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund is recorded. Annual vacation and sick leave does not carryover; it must be used or it is lost.

**BILLINGS TOWNSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended March 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The annual budget is prepared by the Township's management and adopted by the Township Board; subsequent amendments are approved by the Township Board. The annual operating budget has been prepared in accordance with generally accepted accounting principles. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended (MCL 141.421 et seq.), provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Township's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the Township for these budgeted funds were adopted to the activity level.

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u><b>Budgeted Item</b></u>	<u><b>Budget Appropriation</b></u>	<u><b>Actual Expenditure</b></u>
General Fund - Assessor	\$ 42,482	\$ 43,598
General Fund - Elections	1,725	2,313
General Fund – Street Lighting	4,200	4,814
Fire Dept. Fund – Public Safety	107,300	142,239

**BILLINGS TOWNSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended March 31, 2005**

**NOTE 3. DEPOSITS AND INVESTMENTS**

The Township's deposits and investments are presented on the balance sheet under the following categories:

	<b>Cash and Cash Equivalents</b>
Governmental Funds	\$ 511,398
Proprietorship Funds	64,891
Fiduciary Funds	1,320
Total	<u>\$ 577,609</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>\$ 577,609</u>
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Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated three banks for the deposit of Township funds. The investment policy adopted by the Township Board in accordance with Public Act 196 of 1997, has authorized investments in certificates of deposit, savings accounts, local government investment pools organized under PA 121, MCL 129.141 to 129.50, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

The Township's deposits and investments are in accordance with statutory authority.

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

Insured (FDIC)	\$ 200,000
Uninsured and Uncollateralized	377,609
Totals	<u>\$ 577,609</u>

**BILLINGS TOWNSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended March 31, 2005**

**NOTE 4. CAPITAL ASSETS**

A summary of changes in general capital assets follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital Assets Not Being Depreciated				
Land	\$ 51,244	\$ -	\$ -	\$ 51,244
Capital Assets Being Depreciated				
Buildings and improvements	282,032	37,000		319,032
Equipment	950,142	58,312		1,008,454
Subtotal	1,232,174	95,312	-	1,327,486
Less Accumulated Depreciation for				
Buildings and improvements	108,076	7,158	-	532,228
Equipment	831,094	130,711	-	232,987
Subtotal	939,270	137,869	-	1,077,139
Net Capital Assets Being Depreciated	292,904	(42,557)	-	250,347
Governmental Activities Capital Assets—Net of Depreciation	\$ 344,148	\$ (42,557)	\$ -	\$ 301,591

**NOTE 5. RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 6. SIMPLIFIED EMPLOYEE PENSION PLAN**

The Township provides a Simplified Employee Pension (SEP) Plan, in which the Township contributes a discretionary percentage to an employee's individual retirement account on behalf of each Township employee who is at least 18 years old and elects to participate. The total payroll for all Township employees for the year ended March 31, 2005, was \$55,395 of which \$33,400 was covered under the plan. During the year ended March 31, 2005, the Township made contributions to the plan of 7.5% of the eligible employees' wages for a total of \$2,505.

**BILLINGS TOWNSHIP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended March 31, 2005**

**NOTE 7. BOND ANTICIPATION NOTE**

In March 2003, the Township issued a \$634,000 short-term note to pay for certain project costs in connection with the construction of a sanitary sewer system. The note is secured by the proceeds of bonds to be issued by the Township to finance the costs of the project. The Township expects to issue bonds in an aggregate principal amount of not less than \$2,890,000 on or about September 1, 2005 in order to finance the completion of the project. The Township is responsible for making semi-annual interest payments through November 1, 2005 and repayment of the principal after the bonds are sold. The interest rate is 3.58% and total interest costs for the year ended March 31, 2005 totaled \$22,697, all of which was capitalized.

**NOTE 8. OTHER INFORMATION**

**Restatements**

As a result of the implementation of the GASB 34 pronouncements for the year ended March 31, 2005 the following restatements have been made regarding the beginning net assets for the Township governmental funds.

Beginning net assets for the component units was determined as follows:

Fund balance as of March 31, 2004	\$ 430,950
Add: governmental capital assets, including general fixed assets, as of March 31, 2004	1,283,419
Deduct: accumulated depreciation on capital assets as of March 31, 2004	(939,270)
Governmental net assets, restated, as of March 31, 2004	<hr/> \$ 775,099 <hr/>

**NOTE 9. INTERFUND TRANSFERS**

The Township had one transfer from the General Fund to the Fire Fund in the amount of \$4,883. This was to correct a Fire Dept. capital outlay expense that was misposted to the General Fund.

**NOTE 10. RELATED PARTY TRANSACTIONS**

The Township purchases supplies from the Clerk's family business, Sandy's Market; purchases for the year ended March 31, 2005 totaled \$1,607. The Township also purchases supplies from the Fire Chief's family business, Vincent Service; purchases for the year totaled \$1,534.

**BILLINGS TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended March 31, 2005**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Property taxes and related fees	\$ 57,550	\$ 57,550	\$ 59,604	\$ 2,054
Licenses and permits	5,320	5,320	5,299	(21)
State aid	189,940	189,940	181,561	(8,379)
Charges for services	33,364	33,364	36,277	2,913
Interest and dividends	5,713	5,713	4,389	(1,324)
Special assessments	14,100	14,100	6,862	(7,238)
Miscellaneous	-	-	1,691	1,691
Total revenues	<u>305,987</u>	<u>305,987</u>	<u>295,683</u>	<u>(10,304)</u>
<b>EXPENDITURES</b>				
General Government:				
Township board	68,344	68,344	46,320	22,024
Supervisor	11,117	11,117	9,137	1,980
Treasurer	26,250	26,250	23,923	2,327
Assessor	42,482	42,482	43,598	(1,116)
Clerk	13,767	13,767	10,999	2,768
Elections	1,725	1,725	2,313	(588)
Cemetery	8,025	8,025	7,915	110
Buildings and grounds	18,150	18,150	12,711	5,439
All other general government	34,350	34,350	3,471	30,879
Building inspection and regulation activities	4,300	4,300	-	4,300
Road improvements	115,805	115,805	44,463	71,342
Street lighting	4,200	4,200	4,814	(614)
Community/Economic Development:				
Planning commission	16,740	16,740	12,476	4,264
Zoning board of appeals	2,985	2,985	688	2,297
Zoning Administration	7,750	7,750	4,748	3,002
Total expenditures	<u>375,990</u>	<u>375,990</u>	<u>227,575</u>	<u>148,415</u>
Excess (deficiency) of revenues over expenditures	<u>(70,003)</u>	<u>(70,003)</u>	<u>68,107</u>	<u>138,110</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-out	-	-	(4,883)	(4,883)
Total other financing sources and uses	-	-	(4,883)	(4,883)
Net change in fund balances	(70,003)	(70,003)	63,224	133,227
Fund balances-beginning	215,090	215,090	215,090	-
Fund balances-ending	<u>\$ 145,087</u>	<u>\$ 145,087</u>	<u>\$ 278,314</u>	<u>\$ 133,227</u>

**BILLINGS TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE**  
**FIRE FUND**  
**For the Year Ended March 31, 2005**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Property taxes and related fees	\$ 103,000	\$ 103,000	\$ 119,095	\$ 16,095
Federal aid	44,000	44,000	44,100	100
Interest and dividends	298	298	1,168	870
Miscellaneous	200	200	2,575	2,375
Total revenues	<u>147,498</u>	<u>147,498</u>	<u>166,938</u>	<u>19,440</u>
<b>EXPENDITURES</b>				
Public Safety:				
Fire Protection	<u>107,300</u>	<u>107,300</u>	<u>142,239</u>	<u>(34,939)</u>
Total expenditures	<u>107,300</u>	<u>107,300</u>	<u>142,239</u>	<u>(34,939)</u>
Excess (deficiency) of revenues over expenditures	<u>40,198</u>	<u>40,198</u>	<u>24,700</u>	<u>(15,498)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-in	<u>-</u>	<u>-</u>	<u>4,883</u>	<u>4,883</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>4,883</u>	<u>4,883</u>
Net change in fund balances	<u>40,198</u>	<u>40,198</u>	<u>29,582</u>	<u>(10,616)</u>
Fund balances-beginning	<u>138,014</u>	<u>138,014</u>	<u>138,014</u>	<u>-</u>
Fund balances-ending	<u>\$ 178,212</u>	<u>\$ 178,212</u>	<u>\$ 167,596</u>	<u>\$ (10,616)</u>

**Exhibit 11**

**BILLINGS TOWNSHIP  
COMBINING BALANCE SHEET  
OTHER NON MAJOR FUNDS  
March 31, 2005**

	<u>Special Revenue Fund</u>	<u>Special Revenue Fund</u>	
	<u>Mosquito Control</u>	<u>Garbage Fund</u>	<u>Total Non Major Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 18,355	\$ 58,706	\$ 77,062
Assessments receivable, net	-	27,494	27,494
Total assets	<u>\$ 18,355</u>	<u>\$ 86,200</u>	<u>\$ 104,555</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Fund balances:			
Reserved for:			
Unreserved and undesignated	<u>18,355</u>	<u>86,200</u>	<u>104,555</u>
Total fund balances	<u>18,355</u>	<u>86,200</u>	<u>104,555</u>
Total liabilities and fund balances	<u>\$ 18,355</u>	<u>\$ 86,200</u>	<u>\$ 104,555</u>

The accompanying notes are an integral part of these financial statements.

**Exhibit 12**

**BILLINGS TOWNSHIP**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**OTHER NON MAJOR FUNDS**  
**For the Year Ended March 31, 2005**

	<u>Special Revenue Fund</u>	<u>Special Revenue Fund</u>	
	<u>Mosquito Control</u>	<u>Garbage Fund</u>	<u>Total Non Major Funds</u>
<b>REVENUES</b>			
Property taxes and related fees	\$ 18,355	\$ 161,440	\$ 179,795
Interest and dividends	-	179	179
Miscellaneous	-	1,376	1,376
Total revenues	<u>18,355</u>	<u>162,995</u>	<u>181,350</u>
<b>EXPENDITURES</b>			
Public works	-	154,641	154,641
Total expenditures	<u>-</u>	<u>154,641</u>	<u>154,641</u>
Excess (deficiency) of revenues over expenditures	<u>18,355</u>	<u>8,354</u>	<u>26,709</u>
Net change in fund balances	18,355	8,354	26,709
Fund balances-beginning	<u>-</u>	<u>77,846</u>	<u>77,846</u>
Fund balances-ending	<u>\$ 18,355</u>	<u>\$ 86,200</u>	<u>\$ 104,555</u>

The accompanying notes are an integral part of these financial statements.

December 06, 2005

Members of the Township Board  
of Trustees  
Township of Billings  
Gladwin County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Billings Township, for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

#### **REPORTABLE CONDITIONS (MATERIAL WEAKNESSES)**

##### **Periodic Financial Reports (Repeat Comment)**

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Clerk and Treasurer. The required periodic reports and suggested frequency should include the following:

##### **Treasurer**

- Summary report of cash activity by fund (monthly).
- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly).

##### **Clerk or Accounting or Controller or Finance Department**

- Balance sheet by fund (monthly).
- Detail revenue by fund - budget to actual (monthly).
- Detail expenditures by fund - budget to actual (monthly).
- List of bills to be approved for payment (each meeting).
- Separate list of bills paid prior to approval pursuant to a council approved policy (each meeting).

Audit & Assurance Services ■ Accounting & Finance Services ■ Estate & Gift Tax Planning & Consulting  
Tax Planning & Preparation ■ Financial & Management Assistance ■ Business Valuations

**Periodic Financial Reports (Continued)**

The Clerk and Treasurer do not provide the Township Board of Trustees with the required reports. These reports will assist the board members in determining whether the financial activity of the various funds is within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures, etc.

**Bank Reconciliations (Repeat Comment)**

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The Clerk's records must agree with or reconcile to the Treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation along with the above reports monthly until the Township Board is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

**Policy Regarding Cash Disbursements (Repeat Comment)**

Our inquiries of the Township Clerk revealed that cash disbursements are being made prior to approval by the Board of Trustees. This is acceptable if the Township has an adopted a policy which states what disbursements can be released. Typical disbursement include recurring utilities and payroll. We recommend the Township adopt a policy as to what type of disbursements can be released prior to Board of Trustee approval at the monthly meeting and prepare a list of these disbursement for subsequent approval.

**Interfund Advances (Repeat Comment)**

It was brought to our attention during our audit that the Township Treasurer advances funds from the General Fund to the Garbage Collection Fund, and then pays it back once the special assessments are collected during the winter tax collection. This type of transaction is acceptable, but the Treasurer should receive permission from the Township Board of Trustees. Therefore, we recommend the Township Treasurer receive permission from the Township Board of Trustees first before making interfund advances or transfers.

**Appropriations in Budgetary Funds (Repeat Comment)**

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township incurred expenditures in excess of the amount appropriated in the General Fund.

We recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the Township's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the Board's meeting minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

**Computerized General Ledger (Repeat Comment)**

The general ledger is the primary financial record of the Township and must reflect all financial activity. During our audit, we noted the Current Tax Collection Fund is not maintained by the Clerk on the General Ledger. We recommend the Clerk establish this fund on the general ledger to report this information on a monthly basis so that Township Board members can perform their financial oversight responsibility.

**OTHER MATTERS**

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

**Financial Oversight**

The general limitations in any smaller municipalities like the Township of Billings requires that the Township Board of Trustee members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions, and our comment here is intended to emphasize the importance of this oversight.

**Conflict of Interest Policy (Repeat Comment)**

The Township has related party transactions with the Clerk and Fire Chief. Related party transactions can often be controversial. We recommend the Township Board of Trustees adopt a Conflict of Interest Policy to assist in governing the business practices of the Township.

**Fixed Asset Inventory (Repeat Comment)**

The Governmental Accounting Standards Board (GASB) and the Michigan Department of Treasury has required governmental units to change the way they report financial information in audited financial statements. Although the Township has made great strides in accounting for all of their capital assets, the auditor recommends that a complete physical inventory be performed. We recommend the Township take a physical inventory of all its fixed assets as of March 31, 2006.

**Information System (Repeat Comment)**

Township officials currently utilize various systems to process data to communicate financial information to governmental officials, interested citizens, media and those who participate in the lending process. We recommend the Supervisor, Clerk and Treasurer use the existing accounting system to process financial data and to use its standard reports to communicate this information to interested parties. The Supervisor will be responsible for inputting and maintaining budget information; the Treasurer will be responsible for inputting cash receipts and utilizing the cash reconciliation functions; and the Clerk will be responsible for the processing of payroll and the disbursing of accounts payable obligations. Following this recommendation will improve the accuracy and timeliness with regard to the submission of required financial reports.

**Risk Analysis (Repeat Comment)**

During our discussions with the Supervisor and Clerk we noted that although the Fire Department has had a current risk analysis, the Township has not had a current risk analysis performed by the Township's insurance company. Therefore, we recommend the Township contact its insurance carrier and schedule a risk analysis to review all operations of the Township.

**Conclusion**

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the March 31, 2005, financial statements, and this report does not affect our report on those financial statements dated November 9, 2005. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script, appearing to read "Burnside & Lang, P.C.", is written over a horizontal line.

**BURNSIDE & LANG, P.C.**